Section III Management Accomplishments and Challenges

MANAGEMENT ACCOMPLISHMENTS AND CHALLENGES

EPA senior managers are aware of the complex management challenges the Agency must address to achieve program results, and they work diligently to identify strategies to maintain integrity and strengthen the public's confidence in the Agency. The Agency uses a system of internal program reviews, independent reviews, and audits by the General Accounting Office (GAO) and EPA's Office of the Inspector General (OIG); program evaluations; and performance measurements to ensure that program activities are effectively carried out in accordance with applicable laws and sound management policy and to provide reasonable assurance that Agency resources are protected against fraud, waste, abuse, and mismanagement. As a result the EPA is quick to identify and develop strategies to address integrity weaknesses and major management challenges deficiencies in program policies, guidance, or procedures that might impair the Agency's ability to achieve its mission.

For some management problems the Agency has put annual performance goals in place to track progress. Currently, 3 of the 4 integrity material weaknesses and 8 of the 13 management challenges have associated Government Performance and Results Act (GPRA) annual performance goals and measures. Although EPA does not have specific GPRA goals or measures for all integrity weaknesses and major management challenges, the Agency's senior leadership monitors all problems closely as discussed later in this section.

Section III provides a comprehensive discussion of EPA's management and performance challenges and its strategy to resolve these issues. (The most significant of these and their relevance to the achievement of the Agency's mission are also addressed in the preceding goal chapters.) This section also meets reporting requirements of the Federal Managers Financial Integrity Act (Integrity Act); the Inspector General Act of 1978, as amended; and the Reports Consolidation Act of 2000, as discussed below.

Under the Integrity Act all federal agencies must submit an annual Integrity Act Report to the President and Congress and provide reasonable assurance that policies, procedures, and guidance are adequate to support the achievement of their intended mission, goals, and objectives. Agencies also must report material weaknesses—those deficiencies found to impair achievement of agency missions—and identify corrective action strategies that have been developed and are under way to remedy the problems. EPA senior managers periodically report to the Administrator on progress to address material weaknesses and other less serious but important problems.

FISCAL YEAR 2001 ANNUAL ASSURANCE STATEMENT

I am pleased to report that EPA's annual self-assessments of the Agency's internal controls, management, and financial control systems, with the exception of noted material weaknesses, provide reasonable assurance that the Agency's programs and resources are protected from fraud, waste, and mismanagement.

Christing Todd Whitman

Christine Todd Whitman Administrator

The Inspector General Act of 1978, as amended, requires federal agencies to report to Congress twice a year on the status of efforts to carry out corrective actions and reach final action on OIG audits. The Reports Consolidation Act of 2000 gives agencies the authority to consolidate various management reports (including management's report on audits) into a single annual report. EPA managers have greatly improved the timeliness and effectiveness of their audit management practices and have decreased the number of audits without final action 1 year after the management decision by 50 percent since FY 1999 (from 72 in FY 1999 to 36 in FY 2001).

As required by the Reports Consolidation Act of 2000, OIG's list of top management challenges facing the Agency, along with its assessment of EPA's progress in addressing these challenges, is included at the end of this section. The Agency's response to the OIG statement is included as part of the discussion of corrective action strategies for integrity weaknesses and major management challenges.

FY 2001 INTEGRITY ACT REPORT

Since 1988 EPA has identified and reported 49 material weaknesses and 18 financial nonconformances. By the end of FY 2001 EPA had corrected 45 of the material weaknesses (92 percent) and all 18 of the financial nonconformances. These totals reflect the correction of one material weakness in FY 2001: Deficiencies in Internal Employment Discrimination Complaints Resolution Process Under Title VII of the Civil Rights Act of 1964. The Agency's corrective action strategy and determination that this weakness had been resolved are discussed below. EPA will carry forward four material weaknesses and no financial nonconformances. Planned corrective actions and target completion dates for the carryover material weaknesses are addressed below. The progress in correcting material weaknesses and financial nonconformances exemplifies EPA's strong commitment to improving integrity and accountability in all programs, organizations, and functions.

MATERIAL WEAKNESS CORRECTED DURING FY 2001

Deficiencies in Internal Employment Discrimination Complaints Resolution Process Under Title VII (Civil Rights Act of 1964) (Goal 10): Title VII requires that EPA implement and manage an effective federal discrimination complaint process that provides employees and applicants for employment an opportunity to seek redress. Difficulty in managing the Equal Employment Opportunity (EEO) process in a timely manner was attributable to several factors, including inadequately trained counselors; lack of accurate and timely data in the tracking system; late, incomplete, and/or missing discussion of allegations in counselors' reports; an inability to use the automated data tracking system effectively; insufficient contractor support to manage the investigation process; and a lack of staff to handle the current inventory of 269 complaints.

Corrective Action Strategy: During FY 2001 a case closure team that included representatives from EPA's Office of Civil Rights (OCR), EPA's Office of General Counsel, and the Regional Counsel's Office was formed to reduce the backlog of Title VII complaints. The team identified 139 complaints that had been active and pending on OCR's docket for 180 days or more as of June 2001. The team successfully resolved

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most of the complaints, leaving 12 complaints requiring completion of a draft report of investigation at the end of FY 2001. EPA also hired additional permanent staff for the Title VII team and implemented a new contract and case tracking system to monitor the complaint process. With the additional staff and resources, the Agency can ensure the timely processing of future Title VII discrimination complaints.

MATERIAL WEAKNESSES CARRIED OVER INTO FY 2002

1. Backlog of Title VI (Civil Rights Act of 1964) Discrimination Complaints (Goal 10): Title VI prohibits discrimination on the basis of race, color, or national origin by any entity that receives federal financial assistance. By June 2001 the number of Title VI administrative complaints that required an investigation or a jurisdictional determination by EPA had reached 66. EPA's program to investigate Title VI complaints generally does not meet regulatory deadlines for processing and investigating complaints.

Corrective Action Strategy: The EPA Administrator authorized the creation of a task force to work fulltime to eliminate the backlog of Title VI complaints. When the task force began its work in June 2001, 45 of these complaints were still under review with no decision regarding whether the Agency would accept the complaints for investigation, reject them for failure to satisfy the criteria in EPA's Title VI regulations, or refer them to another office or agency. The remaining 21 complaints had been accepted for investigation. Approximately half of the complaints under review were subject to an appropriation rider prohibiting EPA from using FY 1999, 2000, or 2001 appropriated funds to implement or administer the 1998 Interim Guidance for Investigating Title VI Administrative Complaints Challenging Permits until revised guidance was finalized. In June 2000 EPA published draft revised Title VI guidance. By the end of FY 2001 the task force had reduced the backlog by approximately 20 percent and had taken action on all the cases under review that were not affected by the appropriation rider. The appropriation rider was subsequently lifted in FY 2002. EPA continues to process Title VI complaints to eliminate the backlog and to address new complaints as received. Completion of corrective actions is expected by June 2003.

2. Information System Security (Goal 7): EPA needs a centralized security program with strong oversight processes to address risks adequately and ensure that valuable information technology resources and environmental data are secure. (FY 1997–2002 OIG major management challenge, FY 2001 GAO major management challenge, declared a material weakness FY 1997 and an expanded material weakness FY 2000.)

Corrective Action Strategy: EPA has made substantial improvements in strengthening its information security program by instituting a comprehensive strategy that addresses all security-related deficiencies. Corrective actions include improving the Agency's risk assessment and planning process, implementing major new technical and procedural controls, issuing new policies, and beginning a regular process of testing and evaluation. During FY 2001 EPA completed risk assessments for security-critical applications and systems, conducted training and awareness activities for information security officers and senior managers, and provided general awareness training for all Agency employees. In addition, EPA installed network intrusion-detection and monitoring controls on its centrally managed environment and plans to install additional tools on its distributed systems environment. All corrective actions are expected to be completed by the end of FY 2002. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

3. National Pollutant Discharge Elimination System Permits (Goal 2): During the 1990s the backlog in EPA-issued major permits tripled, and the backlog in state-issued permits doubled. Expired NPDES permits might not reflect the most recent applicable effluent guidelines, water quality standards, or Total Maximum Daily Loads posing a threat to the environment. Without timely issuance of high-quality permits, necessary improvements in water quality might be delayed. EPA headquarters and regional offices are working together closely to track both Agency- and state-issued permit efforts. (FY 1998–2002 OIG Management Challenge, declared a material weakness FY 1998.)

Corrective Action Strategy: The Agency has made substantial progress in implementing a process to effectively reduce EPA's long-standing backlog in issuing NPDES permits. EPA, in consultation with state partners, developed and issued guidance—Approaches for Reducing the NPDES Permit Backlog—in July 1999. The guidance identifies four strategic objectives for reducing the backlog: (1) understand and better define

the backlog, (2) examine permitting efficiencies and facilitate programmatic and technical streamlining opportunities, (3) provide funding and technical support for regions and states, and (4) encourage regions and states to share technical expertise and permitting tools. In May 1999 the Agency established two target dates for completion of corrective actions, one for individual permits for major facilities and one for individual permits for major and minor facilities combined. The target for the major facilities was to have no more than 10 percent of the permits backlogged by the end of the 2001 calendar year; the target for the combined major and minor facilities is 10 percent by the end of the 2004 calendar year. The Agency is also working closely with the regions to manage permit issuance efforts for both EPA- and state-issued NPDES permits. A monthly permit issuance/backlog trend report is distributed to each EPA region and the Agency's stakeholders. In addition, the Agency is examining strategies that will focus attention on eliminating the permit backlogs that have the most significant environmental impact. Corrective actions are expected to be completed by the end of FY 2005. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

4. Construction Grants Closeout (Goal 2):

Without timely closeouts of construction grants, millions of dollars in potentially ineligible program costs cannot be recovered for use in other high-priority state clean water projects. (FY 1992 OMB candidate material weakness, declared an Agency weakness FY 1992, elevated to a material weakness FY 1996.)

Corrective Action Strategy: Since 1990 the Agency has worked to accelerate the completion and closeout of the construction grants by annually assessing the remaining workload in each region, identifying the bottlenecks, and agreeing on a closeout plan and follow-up actions to bring the program to completion. Success is defined as 10 or fewer pre-1992 projects remaining to be closed out in a region, with no more than 5 remaining in any state in the region. The number of open grants has decreased from 5,860 in 1990 to 138 (pre-1992 grants) at the end of FY 2001, and it is projected to be approximately 68 by the end of FY 2002. Five regions had achieved success by the end of FY 2001, and the remaining regions will be monitored closely to ensure that they can achieve success by the end of FY 2002. Corrective actions are expected to be completed by the end of FY 2002.

MAJOR MANAGEMENT CHALLENGES

This portion of Section III presents a brief description and summary of activities planned in response to 13 management challenges identified by GAO, OMB, OIG, and EPA itself. The Agency will continue to use the tools available under GPRA and other management statutes to assist in addressing these issues. Eight of the 13 major management challenges are linked to GPRA goals and measures, and 10 of EPA's management challenges are being addressed as internal Agency weaknesses for which the Agency develops specific and measurable corrective actions and reports on progress to the Administrator.

1. Relationships with States (NEPPS) (Cross-Goal): Under the National Environmental Performance Partnership System (NEPPS), EPA committed to long-term collaboration with state agencies to improve Agency and state management of national environmental programs. (FY 1999–2001 GAO major management challenge; FY 2000–2002 OIG major management challenge.)

Corrective Action Strategy: The EPA Administrator considers improving the Agency's relations with states, tribes, and other federal agencies a high priority. In an August 2001 policy memorandum, the Administrator called for senior Agency leadership to advance the partnership through increasing the Agency's flexibility for states to address the highest priority environmental problems, working with the states to improve performance measures, and generally increasing the incentives for states to improve results-based management under the Performance Partnership System. The Agency is also developing tools that state and EPA regional NEPPS negotiators can use to clarify the appropriate performance expectations. In addition EPA and the Environmental Council of the States (ECOS) have an active joint workgroup to address continuing implementation issues and work to identify and remove remaining barriers to effective implementation of the Performance Partnership System. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

2. Protecting Infrastructure from Nontraditional Attacks (Goal 2): Presidential Decision Directive (PDD) 63, initiated in May 1998, assigned EPA as the designated Lead Agency and Sector Liaison for the

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Nation's water systems. To meet the requirements of PDD 63, EPA needs to work with private sector representatives to complete a national framework for protecting the critical infrastructure of the Nation's water systems from terrorist attack, conduct vulnerability assessments and risk mitigation, and implement a Vulnerability Awareness and Education Program for the water sector. (FY 2002 OIG major management challenge.)

Corrective Action Strategy: The Agency is playing a significant role in protecting the public from terrorist attempts to endanger drinking water supplies. Agency activities in FY 2000 and FY 2001 were designed to initiate development of the materials, tools, and training needed for drinking water systems to conduct vulnerability assessments and to begin development of a secure Information Sharing and Analysis Center (ISAC), which will allow drinking water utilities to share threat information with the Federal Bureau of Investigation and other utilities. In response to the terrorist attacks of September 11, 2001, the Agency established a Water Protection Task Force to implement PDD 63 and other related activities. In FY 2002 the Agency will continue the development of ISAC, test and modify the vulnerability assessment tool, support the implementation of vulnerability assessments by the 360 largest public water systems nationwide, develop and disseminate guidance for emergency response plans, and train water system operators in the application of vulnerability assessments and remedial plans. These activities are being funded through \$83 million in an FY 2002 supplemental appropriation for EPA. In addition, the Agency will make grants to states for counterterrorism coordinators to work with EPA and drinking water utilities to implement counterterrorism activities. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

3. Clean Water Act Section 305(b) (Goal 2): EPA needs to improve the quality of water data collected from the states every 2 years under section 305(b) of the Clean Water Act. Water quality monitoring data has long been recognized as the foundation upon which EPA and state water quality management decisions are made. These include decisions ranging from developing state water quality standards,

assessing attainment with standards, identifying waters not meeting standards, calculating total maximum daily loads (TMDL), developing NPDES discharge limits and targeting nonpoint source controls. Numerous independent reports have cited that weaknesses in monitoring programs undermine states' ability to support water quality decisions with confidence. Over the past 10 to 15 years, state water quality monitoring programs have dwindled in scope and quality while the need for high-quality data has become more critical. EPA needs to consider all possible approaches, from requiring states to collect and report useful data to eliminating the 305(b) report and relying instead on data and models from the U.S. Geological Survey and others. (FY 2001 OMB candidate material weakness, declared as internal Agency weakness FY 2001.)

Corrective Action Strategy: EPA is working with states and other stakeholders to improve the comprehensiveness of state monitoring programs, the inclusiveness of data collection and reporting under section 305(b), the quality of state data in making water quality management decisions, and the development of a comprehensive information management architecture. The Agency is ready to issue final guidance that will provide a framework for states and EPA to collaborate in developing a strategy and timeline for upgrading state monitoring programs. In addition, the Agency is working with the states on technical guidance that will describe what the states need to consider in the collection of data to make water quality standards attainment decisions for both section 305(b) and section 303(d) purposes. EPA is developing a new report consolidating 305(b) and 303(d) requirements and expects full implementation during the states' 2004 reporting cycle. The consolidated report will ensure that either all waters are being monitored or waters that are not monitored have plans to correct this deficiency. Corrective actions are expected to be completed by the end of FY 2004.

4. Safe Drinking Water Information System (SDWIS) (Goal 2): The Safe Drinking Water Information System (SDWIS) is the Nation's best source of national compliance information on all Safe Drinking Water Act requirements. It provides the critical database for such efforts as Annual Compliance Reports, Drinking Water Consumer Confidence Reports, development of regulations, trends analyses, and public information. In 1998 EPA

supported a series of data verification audits, the results of which pointed out serious data quality and reliability issues. (FY 1999 OMB candidate material weakness, declared an Agency weakness FY 1999.)

Corrective Action Strategy: EPA developed a Data Reliability Action Plan in 1999 as a multistep approach to improve the data in SDWIS. Two important steps completed by the end of 1999 included (1) an industry survey analysis in which water utilities examined and compared data in SDWIS with the utilities' own data and (2) a study of the variety of ways that states are organized to carry out drinking water program responsibilities and the effects of these organizations on data collection. In FY 2001 EPA, in partnership with states and major stakeholders, developed an information strategy to make several additional improvements to SDWIS. These additional activities address the totality of issues related to the quality and accuracy of SDWIS, and as a result they will extend the target corrective action date. Completion of corrective actions is expected by the end of FY 2004.

5. Resource Conservation and Recovery Act (RCRA) Corrective Action Program (Goal 5):

EPA and other stakeholders, including GAO, have identified several factors impeding timely and cost-effective cleanups under RCRA. To address the problem, GAO recommended that EPA devise a strategy for ensuring that cleanup managers in EPA's regions and states have a consistent understanding of new approaches outlined in guidance or regulation and that EPA oversee program implementation to determine whether cleanup managers are using the new approaches appropriately. (FY 1999 GAO major management challenge, declared an internal Agency weakness FY 1999.)

Corrective Action Strategy: EPA has already undertaken a number of regulatory, guidance, and oversight initiatives consistent with GAO's suggestions. A number of additional actions are planned for the near future and the long-term, including providing new results-oriented cleanup guidance with clear objectives; encouraging maximum use of program flexibility and practical approaches through training, outreach, and new uses of enforcement tools; and enhancing community involvement and greater public access to information on cleanup progress. Completion of three new results-oriented cleanup

guidances expected to be issued early in FY 2001 was delayed because of the need to address comments and make decisions on key issues, such as maintaining the ability to require corrective action under 3008(h) RCRA authorities. Completion of corrective actions is expected by FY 2002.

6. Data Management Practices (Goal 7): EPA needs to improve the management, comprehensiveness, consistency, reliability, and accuracy of its data to help better measure performance and achieve environmental results. In addition, the Agency needs to develop error detection processes to ensure that errors in its databases are addressed appropriately and in a timely and documented fashion. EPA broadened the scope of an existing internal Agency data management weakness, consolidating Agency efforts to address the multiplicity of issues related to information management, data accuracy, and error correction. (FY 1998–1999 GAO and OIG major management challenge; FY 2000 and 2001 GAO major management challenge; FY 2000–2002 OIG major management challenge; Information Resources Management (IRM) data management declared an Agency weakness FY 1994; scope of weakness expanded FY 2000; and target correction date extended to FY 2004.)

Corrective Action Strategy: EPA is working internally and in partnership with the states to improve data management, comprehensiveness, consistency, reliability, and accuracy for better performance measurement and achievement of environmental results. The Agency completed promulgation of six key data standards and their rules for implementation in FY 2001. The Environmental Data Standards Council developed four additional key data standards in the areas of permitting, enforcement and compliance, water quality monitoring, and tribal identifiers and expects to implement them during FY 2002. The Agency is also working to expand implementation of its Integrated Error Correction Process, which provides an effective feedback mechanism for reporting and resolving errors identified by the public on EPA web sites. From May 2000 to September 2001, EPA received 987 alleged errors and resolved 650 of them; the remainder are still under review. EPA has completed major components of a data architecture to support crossorganizational activities and has begun to develop a formal data architecture document that it expects to

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complete by May 2002. The Agency expects to fully implement the Central Data Exchange to improve reporting of environmental information by the regulated community and states to EPA by March 2004. The Agency also expects to complete development of a strategic plan for addressing data gaps by December 2002. The Agency anticipates that all corrective actions will be completed by the end of FY 2004. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

7. Laboratory Quality System Practices (Goal 7): Through internal reviews and OIG investigations, the Agency has found management control weaknesses and some cases of misconduct in laboratories concerning data quality that could impact environmental and enforcement decisions. (FY 1999–2002 OIG major management challenge, declared an internal Agency weakness FY 2000.)

Corrective Action Strategy: EPA completed independent technical reviews of its laboratories in FY 2001 to assess the Agency's ability to produce data of known and documented quality. The Agency is currently assessing draft review reports and proposed corrective action plans submitted by reviewed organizations. Other ongoing activities include assembling a workgroup consisting of both EPA and non-EPA members that will (1) identify weaknesses in laboratory quality systems that produce analytical data used for Agency decision making; (2) establish methods to detect and deter misconduct in labs; and (3) promote best practices in laboratory performance, documentation, and implementation. In addition each EPA organization will be responsible for establishing management controls to ensure that environmental measurement data supplied by laboratories are of known and documented quality. This effort includes monitoring and oversight of the development and implementation of Agency-approved quality systems by third parties. Completion of corrective actions is expected by December 2003. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

8. Results-Based Information Technology
Project Management (Goal 7): EPA needs a
comprehensive approach to information technology
(IT) capital investment planning and a disciplined
budget process for managing its assets to meet

programmatic objectives. In addition the Agency needs to ensure that IT projects are timely, cost-effective, and results-based. (FY 2001–2002 OIG major management challenge, declared an internal Agency weakness FY 2001.)

Corrective Action Strategy: EPA is taking a comprehensive and systematic approach to develop an appropriate strategy to better manage its IT investments. This strategy consists of four overall goals: (1) automate the Agency's capital planning and investment control (CPIC) process by deploying the Information Technology Investment Portfolio System (I-TIPS), (2) develop a complete investment portfolio aligned with the Agency's technology architecture, (3) improve proposal quality and analysis, and (4) establish efficiencies with other Agency management processes. The Agency anticipates that all corrective actions will be completed by FY 2004. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

9. Science to Achieve Results Grants and Fellowships (STAR Program) (Goal 8): OMB believes that EPA needs to assess the outcomes of the research completed under the STAR Program and evaluate the benefits of the program to EPA in meeting its mission. OMB also believes that EPA needs performance measures to determine whether the STAR Program is contributing value to the Agency in meeting its priorities. (FY 2001 OMB candidate material weakness.)

Corrective Action Strategy: EPA's STAR Program focuses on research questions that are applied and require intermediate or longer time frames to address, or are a part of the Agency's research and development core program designed to provide the scientific basis for questions to be dealt with in the future. By the time a research grant is completed, there might be immediate practical applications; more often, it takes longer to determine the best use of research results. During FY 2001 the Agency's Science Advisory Board (SAB) conducted a review of the results of the Water and Watersheds component of the STAR Program. The Panel strongly recommended the STAR Water and Watersheds be retained as a major focused program within EPA. EPA is implementing the SAB recommendations from the report to ensure that the research results will be used effectively. In FY 2002 the SAB will review components of the STAR Particulate Matter Program. A contract with the National Academy of Sciences (NAS) was awarded in September 2001 to review up to four additional areas of STAR research. NAS will also help to develop criteria for EPA to use in future evaluations of the STAR Program. EPA will continue to work with the NAS and SAB to implement the recommendations of these reviews and plan additional reviews of STAR, as appropriate.

10. Permit Compliance System (PCS) (Goal 9): OMB believes that, because of missing data and data quality problems, PCS is not a reliable source of information for the management and oversight of the Clean Water Act NPDES program. (FY 1999 OMB candidate material weakness, declared an internal Agency weakness FY 1999.)

Corrective Action Strategy: The Agency is aware of problems with PCS and over the past few years has worked with the states to identify problems and define the systems revisions needed for effective NPDES program management and oversight, to improve the quality and comprehensiveness of the data, and to reduce the transaction costs for state users. Initiatives under way include the modernization of PCS to better address requirements of the NPDES permitting and enforcement programs and to meet new initiatives such as tracking reduced pollutant loadings, capturing information on storm water sources, and assessing the health of watersheds. The modernized PCS will include Electronic Data Interchange, which will allow EPA to access state data and will take into account increased public access to data and standardization of systems and data. In addition, the Agency is working with the states to improve the transfer of data into PCS via an Interim Data Exchange Format (IDEF) that will ultimately simplify the transition to the new modernized PCS. EPA is also proposing the Cross Media Electronic Reporting and Recordkeeping Rule to address electronic reporting requirements for the NPDES Program. The cross media rule was published in the Federal Register on August 31, 2001, and the Agency expects to promulgate the final rule by the first quarter of FY 2003. Completion of corrective actions is expected by the end of FY 2003.

11. Linking Mission and Management (Goal 10):

EPA's OIG believes the Agency needs to improve its planning, measuring, and accountability by involving its partners in goal and priority setting, linking output and outcome measures of results to its goals, and accounting for the costs of achieving those results. In addition, EPA needs to accumulate, report, link, and use environmental information on activities and outcomes as a basis for determining environmental return on investment, sound resource decisions, and accountability to the public. (OIG major management challenge for FY 2002, combining FY 2001 management challenges on accountability and managerial accounting.)

Corrective Action Strategy: EPA has made significant progress over the past year in linking the management of the Agency's resources to its mission and environmental and human health results through the following activities:

- Involved EPA's state partners in the annual planning and budgeting process by considering state priorities along with EPA headquarters and regional priorities, and consulting with the states at appropriate times during the budget development and appropriations process.
- Developed more outcome-oriented annual performance goals and measures. In August 2001 the Office of the Chief Financial Officer (OCFO) awarded contractor support to program offices for projects geared specifically toward improving annual performance goals and performance measures. In addition, EPA's FY 2002 Final Annual Performance Plan/Congressional Justification, issued in August 2001, includes 6 percent more outcome-based goals than the FY 2000 Final Plan.
- Improved EPA's annual report to make it more relevant to Agency decision makers. The Agency's Fiscal Year 2001 Annual Report emphasizes environmental results and the impact of how Agency activities programs on protecting human health and the environment as well as the benefit to the public.
- In August 2001 formed the Managing for Improved Results Steering Group, comprising senior managers from across the Agency. The steering group is working to develop options and recommendations for the Deputy Administrator

on short- and long-term reforms to EPA's strategic planning, priority-setting, budgeting, and accountability structures and processes. This effort focuses on significant, far-reaching reforms to national processes and systems as well as incremental changes and smaller-scale improvements that can be implemented immediately.

In addition, EPA continued its outreach efforts to inform Agency managers on the benefits and uses of cost information and worked with individual program offices to develop further cost accounting applications to enhance program management. The Agency met specific program needs in such diverse areas as user fees, Superfund cost recovery and the Working Capital Fund (WCF).

OCFO developed cost accounting reports to better manage critical activities and programs. For example, the Agency now produces Cost by Output, Superfund Site Specific, Superfund Remedial Action, and WCF Revenue and Expense reports. Many of these reports bring together financial, administrative, and program information from different systems and reports. This was made possible through the OCFO's financial data warehouse and reporting tools which integrate portions of "mixed" administrative management systems (e.g., grants and contracts data) with the core financial system. As a result of this integration the Agency has expanded the range of cost information available to program managers and is better able to support decision-making based on costs and results. OCFO is continuing to partner with Agency offices to meet current needs and identify future applications.

The Agency recognizes that challenges remain in better linking assessments of program performance with resource decisions and in identifying goals and measures that better reflect its state partners' goals and priorities and will allow for trends analyses over time. However, EPA made significant progress in FY 2001 and will continue to work diligently toward improving its ability to link its mission and management. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

12. Improved Management of Assistance Agreements (Goal 10): OIG audits have found that EPA needs to validate the effectiveness of its strategy for ensuring effective management of its assistance agreements. (FY 2000 and 2002 OIG major

management challenge; grants closeout and oversight of assistance agreements was declared a material weakness in FY 1996, reported corrected in FY 1999 and redesignated as an internal Agency weakness; grants closeout was corrected in FY 2000; and improved management of assistance agreements was declared an internal Agency weakness in FY 2000.)

Corrective Action Strategy: During FY 2001 EPA conducted a review to validate the effectiveness of its post-award management policies. The study found that the Agency has made considerable progress in post-award management but that further improvement is needed. In FY 2002 EPA will consolidate all existing post-award management policies into a single, streamlined policy. In addition, EPA will continue to review quarterly reports and information from the Grantee Compliance Database and evaluate post-award monitoring plans. Completion of corrective actions is expected by FY 2002. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

13. Human Capital Strategy Implementation (Goal 10): EPA must devote considerable attention to building a workforce with the highly specialized skills and knowledge required to accomplish the Agency's work or risk seriously weakening its ability to fulfill even the most basic of its legal, regulatory, and fiduciary responsibilities. With its Human Capital Strategic Plan in place, the Agency has a blueprint for the initial and long-term steps needed to begin

addressing this issue. (FY 1998–2002 OIG major management challenge, FY 2000–2001 GAO major management challenge, declared an internal Agency weakness FY 2000.)

Corrective Action Strategy: EPA developed a comprehensive approach for investing in and managing the Agency's human resources. During FY 2001 the Agency began to aggressively implement its Human Capital Strategic Plan. Additional resources will be dedicated to this effort in FY 2002. As part of this plan, the Agency initiated development of a competency-based workforce planning model in FY 2001. Contractor support to develop this model will begin in FY 2002. Specific accomplishments in FY 2001 include (1) graduating the second class of interns and hiring a fourth class; (2) launching the Senior Executive Service (SES) Candidate Development Program, with 50 candidates to be selected for the program in FY 2002; (3) developing and launching a new course for supervisors and managers that new supervisors will be required to take within the first 90 days of becoming a supervisor; and (4) beginning the rollout of five courses created as part of the Mid-Level Development Program. Completion of corrective actions is expected by FY 2004. (Also see OIG's Major Management Challenges Needing High-Level Agency Attention.)

FY 2001 MANAGEMENT'S REPORT ON AUDITS

EPA continues to make progress in reducing the number of audits without final corrective action as well as in strengthening its audit management practices Agency-wide. In FY 2001 EPA was responsible for addressing the OIG's recommendations and tracking follow-up activities on 470 audits. During the fiscal year the Agency achieved final action on 190 audits.

In addition, to improve its efficiency in managing its audit follow-up activities, the Agency implemented a new Web-based system for tracking and monitoring audit reports. Since implementing the new system in May 2001 EPA has continued to work with the OIG to emphasize the importance of the quality of data shared between EPA's and the OIG's tracking systems and effective audit management practices.

Following is a summary of the Agency's audit management activities for FY 2001.

Final Corrective Action Taken: EPA completed final corrective action on 22 performance audits and 168 financial audits. Of the 168 financial audits, the OIG questioned costs of more than \$159.4 million. After careful review, the OIG and the Agency together agreed to disallow \$57.3 million of these questioned costs. For this period, EPA management and the OIG did not identify audits for which resources could be better utilized (i.e., funds put to better use) based on findings in a performance audit.

Final Corrective Action Not Taken: As of September 30, 2001, 134 audits were without final action (excluding those audits with management decisions under administrative appeal by the grantee). Of these 134 audits, EPA officials had not completed final action on 36 audits (27 percent) within 1 year after the management decision.

Audits Awaiting Decision on Appeal: EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take action to collect the account receivable until the Agency issues a decision on the appeal. As of September 30, 2001, there were 66 management decisions in administrative appeal status.

Audits Pending Final Corrective Action Beyond 1 Year: Because of the complexity of the issues, it

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often takes Agency management longer than 1 year after management decisions are reached with the OIG to complete corrective action on audits. Beginning October 1, 2001, management will track 36 audits with outstanding corrective actions after the 1-year period. These audits are categorized by three types: Program Performance (21), Assistance Agreements (13), and Single Audits (2). These audits are discussed below by category and identified by title and responsible office. Additional information on these audits is available, upon request, from the OCFO's Audit Management Team (202-564-3633).

Audits of Program Performance: Final action for program performance audits occurs when all corrective actions have been implemented. This may take longer than 1 year when corrections are complex and lengthy. These include audits of EPA's financial statements. EPA is tracking 21 audits in this category.

Administrator's Office:

601301 Environmental Education

P00213 NAMC

Office of Prevention, Pesticides & Toxic Substances:

101378 Pesticides Inerts

304030 Pesticides Banned (follow-up)

401205 Pesticides Theme Report

Office of Solid Waste and Emergency Response:

701114 Audit of RCRA Hazardous Waste Data

701132 Lab Data Quality - Federal Facilities

801090 Replacement Housing

801234 Audit of Deferrals to State

Office of Enforcement & Compliance Assurance:

P00018 Multimedia Enforcement

Office of the Chief Financial Officer:

P00004 IAG Deobligation

100288 FY98 Financial Statement

601200 FY95 Financial Statement - Superfund

Office of Environmental Information:

501240 PCIE Application Maintenance

801240 Field Sampling Capping Report

Office of Water:

701142 Animal Waste Disposal Issues

701223 Mining Financial Assurance

Office of Research and Development

P00015 Narragansett

Region 9:

803004 Physical Environment

Region 10:

801252 Region X LANS

P00012 Hanford's Tank Waste Remediation System Program

Audits of Assistance Agreements: Final action for assistance agreement audits can take longer than a year as the grantee may appeal, refuse to repay, or be placed on a repayment plan that spans several years. The Agency's Audit Follow-Up Coordinators are tracking 13 audits with financial or associated corrective actions taking longer than 1 year to complete.

Office of Enforcement & Compliance Assurance:

200207 Center for Environmental Commerce Eng.

Office of Grants and Debarment:

100006 FY 94 Report (HHS OIG)

100011 IAG Audit Report

100025 IAG Audit Report

100191 HHS-IAG-97

Region 1:

100189 Berlin

Region 2:

201241 Moodna Basin NY

100017 Landis SA

Region 3:

102023 Bath County Service Auth VA

200009 Baltimore City

Region 5:

103115 Galion, OH 104047 Indianapolis, IN

304038 Flint, MI

Single Audits: Final action for single audits occurs when nonmonetary compliance actions are completed. This may take longer than 1 year to implement if the findings are complex or if the grantee does not have the resources to take corrective action. Single audits are conducted of nonprofit organizations, universities, and state and local governments. EPA is tracking completion of corrective action on two single audits for the period beginning April 1, 2001.

Region 9:

805053 Colorado River Indian Tribes, AZ 805059 Colorado River Indian Tribes, AZ

DISALLOWED COSTS AND FUNDS PUT TO BETTER USE				
	Disallowed Cost (Financial Audits)		Better Use (Performance Audits)	
Category	Number	Value	Number	Value
Audits with management decisions but without final action at the beginning of FY 2001a	120	\$163,878,871	30	\$0
Audits for which management decisions were reached in FY 2001	152	\$46,977,449	22	\$0
Total audits pending final action during FY 2001	272	\$210,856,320	52	\$0
Final action taken during FY 2001: (i) Recoveries (a) Offsets (b) Collection (c) Value of Property (d) Other (ii) Write-offs (iii) Reinstated Through Grantee Appeal (iv) Value of recommendations completed (v) Value of recommendations management decided should/could not be completed	168	\$57,395,835 \$18,545,264 \$6,720,316 \$0 \$3,656,096 \$24,465,513 \$4,008,646	22	\$0 \$0 \$0
Audits without final action at end of FY 2001	104	\$153,460,485	30	\$0

^a Differences in number of reports and amounts of disallowed costs and funds put to better use between this report and EPA's previous annual report result from adjustments made between the old and new management audit tracking systems.

MAJOR MANAGEMENT CLALLENGES NEEDING HIGH-LEVEL AGENCY ATTENTION

(Prepared by EPA's Office of the Inspector General)

LINKING MISSION TO MANAGEMENT

EPA can be viewed as a business that must endeavor to deliver high-quality products and services—improved environmental and human health protection—to its customers at a reasonable cost. Over the years, we have recommended to EPA a number of improvements to enhance accountability for the resources it spends.

The Agency has established a framework for "results-based management" by setting long-term goals and objectives, with strategies for achieving them; setting annual goals and measures linked to EPA's budget request; tracking progress annually and over the long term; and using the results to adjust the Agency's goal setting and strategy development. However, EPA needs to improve its planning, measuring, and accountability by involving its partners in goal and priority setting, linking output and outcome measures to its goals, and accounting for the cost of achieving those results.

EPA's strategic planning and budget architecture is organized around 10 separate strategic goals that do not generally address overlapping environmental issues or the needs and priorities of EPA's regions and its state partners, which implement the majority of the Agency's programs. The Agency needs to strengthen its efforts to ensure that regional and state priorities and goals are considered when setting its national goals, defining meaningful measures, and accounting for costs and performance.

To tell EPA's story of performance in relationship to its goals, the Agency must develop more outcome-based strategic and annual targets with its partners. When EPA merged the budget and the Government Performance and Results Act (GPRA) process, it adopted a set of goals and measures that reflected each aspect of the Agency's budget. The Agency has output data on activities but has few environmental performance goals and measures and little data that support its ability to measure environmental outcomes and impacts. EPA's reliance on output measures has made it difficult to provide the regions and states the flexibility to direct their resources to what they consider to be the activities with the highest payoff, as

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well as to assess the impact of the Agency's work on human health and the environment. Better performance measurement and financial accountability can be achieved through clearly linked, meaningful performance measures with defined environmental outcome goals. To be accountable EPA and its partners need to capture and report environmental and human health results information in a meaningful, timely manner.

As a result of EPA's integration of its budget and accounting structure with the GPRA strategic architecture, the Agency accounts for all costs by goal and objective. However, more needs to be done to improve EPA's cost accounting system and processes so that Agency managers have useful, consistent, timely, and reliable information on the cost of carrying out EPA's programs. It is also critical that EPA report in a timely manner the full costs of its outcome results, outputs, and activities. In addition, EPA managers might need and want other types of cost information beyond cost per output.

OCFO should lead an effort to determine what other types of cost information may be useful to Agency managers. Once these needs have been determined, OCFO should then develop other meaningful cost measures. Congress and federal executives may find this cost information useful in making decisions about allocating resources, authorizing and modifying programs, and evaluating performance.

Over the past 2 years, the Agency has taken several steps to improve its ability to manage for results and account for its resources. In August 2001 the Deputy Administrator charged OCFO with convening a Managing for Improved Results Steering Group, composed of senior leaders from across the Agency. The Steering Group is examining EPA's strategic planning, priority-setting, budgeting, and accountability structures and processes to identify potential improvements and to develop a change strategy that will operate on two fronts:

(1) identifying options for significant, far-reaching reforms to national processes and systems and (2) pursuing incremental changes and smaller scale improvements that can be effected immediately.

Although the Agency has taken a number of actions, we believe much remains to be done. Overall, EPA needs a comprehensive system to accumulate, report, link, and use environmental information on activities and outcomes, as a basis for determining environmental return on investment, sound resource decisions, and accountability. EPA has started developing the process for linking costs to goals but now must follow through by working with its regional offices and state and federal partners in developing appropriate outcome measures and accounting systems that track environmental and human health results across the Agency's goals. This information must then become an integral part of the decision-making process of EPA's senior management.

INFORMATION RESOURCES MANAGEMENT

Information Resources Management (IRM) covers a broad area of interrelated activities, including fundamental concepts such as using enterprise and data architecture strategies to guide the integration and management of data; implementing data standards to facilitate data sharing; and establishing quality assurance practices to improve the reliability, accuracy, and scientific basis of environmental data. Industry is identifying strategically important data as an enterprise or corporate asset and is spending significant amounts of money to collect and manage such data. Audits of EPA programmatic areas often have a component relating to environmental data information systems, and we frequently find deficiencies in these systems. Today most states have developed environmental programs with their own supporting information systems, based on their own needs. Moreover, EPA and the states often apply different data definitions within these information systems and sometimes collect and input different data. The result has been that states and EPA report inconsistent data, incomplete data, or obsolete data.

The Agency is moving in the right direction, but many components that influence the effectiveness of a data management program still need to be fully addressed. During recent years the Agency has specifically targeted various components, but developing a robust data management program has proven to be a complex and elusive effort. As a

result, corrective action dates have been extended several times since this Agency-wide problem was first reported in 1994.

To date, several areas remain to be completed. For example, the Agency has yet to implement a 1998, agreed-upon OIG recommendation to formally revise its policies and procedures to support an Agency standards program. Also, over a 2½-year period, EPA developed and formally approved six data standards; however, management estimates that these standards will not be implemented in the Agency's major environmental systems until the end of FY 2003. EPA also continues to work with the Environmental Council of States to identify and develop additional data standards. Experience suggests that the overall process needs to move forward in a more timely and structured manner. To its credit, EPA also has developed a Facility Registry System and several metadata registries—the Environmental Data Registry, Chemical Registry System, Biology Registry System, Substance Registry System, and Terminology Reference System. Additionally, EPA expects to adopt four new data standards in FY 2002 in the areas of Permitting, Enforcement and Compliance, Water Quality Monitoring, and Tribal Identifiers.

The Assistant Administrator for Environmental Information is responsible for developing and maintaining a strategic information resources management plan. However, EPA has not revised its outdated information technology strategy or fully developed an Enterprise Architecture Plan to address the integration and management of its environmental data to support the Agency's strategic goals. The informal target date for completing EPA's target Enterprise Architecture is September 2002.

Data reliability is another major aspect of data management that needs further attention. Recent audits indicate that systems used by EPA's Enforcement, Superfund, and Water programs have inconsistent, incomplete, and obsolete data. Ongoing audit work indicates that data in two major Agency systems contain significant error rates in crucial data fields. For example, more than 85 percent of the cases reviewed in EPA's National Enforcement Docket System contained errors in at least one key field. Many of these data fields were congressionally reported and used to track environmental progress

on GPRA goals and measures. The Agency has taken significant steps to be responsive to data quality concerns by instituting an Integrated Error Correction Process, which provides an effective feedback mechanism for reporting and resolving errors identified by the public on EPA web sites. From May 2000 to September 2001, EPA received 987 alleged errors and resolved 650 of them. The rest are under review by EPA and state analysts.

Moreover, although the Agency recognizes and is trying to address such data accuracy problems, it has not developed a strategic plan to address the fact that managers might not have the right environmental data to make sound decisions. This year EPA began developing a Data and Information Quality Strategic Plan to prioritize recommendations for improving the quality of currently collected data. The draft plan, however, does not include a methodology to address the long-recognized problem of data gaps.

As a result of these shortcomings, it is unlikely that EPA will have the foundation it needs to share comparable information, monitor environmental activities, or compare progress across the Nation. Moreover, EPA's ability to enforce environmental laws and evaluate the outcomes of its programs in terms of environmental changes will continue to be limited by gaps and inconsistencies in the quality of its data. EPA needs to continue its efforts to identify what data are necessary to manage its programs and needs to work with its partners to ensure that such information is captured and reported in a timely, accurate, and consistent manner.

RESULTS-BASED INFORMATION TECHNOLOGY PROJECT MANAGEMENT

Six years after the Clinger-Cohen Act introduced new requirements for managing information technology (IT) investments, it is apparent that EPA still has much to accomplish in planning for and developing an IT infrastructure to manage an integrated investment portfolio approach for environmental information. Specifically, EPA's strategic IT plan is 7 years old and does not reflect the current needs of the Agency, much less the requirements of the Act.

The Clinger-Cohen Act intended a central process with a Chief Information Officer (CIO) to manage IT investments across the Agency. Since

enactment of the Act, EPA has taken two significant actions. In 1998 the Agency established the CIO position and assigned responsibility for establishing an IT Architecture and an IT Capital Portfolio Investment Control (CPIC) process. Then, in 1999 EPA reorganized its IT management structure and established a Quality Information Council to coordinate IT investments across the programs. Although these two actions were meant to bring about changes in the way EPA manages its IT investments, IT project management continues as it did before the CIO position was established and significant gaps exist in the way IT investments are proposed, reviewed, funded, and managed.

For example, we have significant concerns regarding the effectiveness of EPA's current management structure, the consistency of its IT investment process, and the Agency's inability to track IT development and implementation effectively. Our concerns regarding the lack of IT project management at EPA were echoed in a special report, Federal Agency Compliance with the Clinger-Cohen Act, issued by the Senate Governmental Affairs Committee in October 2000. EPA has attempted to address these problems, but after 5 years has yet to propose a final project management process for IT capital investments for OMB reporting purposes.

Further, the IT CPIC process needed for managing and monitoring IT projects continues to evolve slowly, year after year, with no established completion date. In addition, the Agency's IT policies are outdated and do not implement the Act's requirements. Therefore, managers are not urged to follow new procedures. After 6 years, the Chief Financial Officer has just enacted an OIG recommendation to establish an IT project cost accounting methodology. We have concluded that EPA has an evolving, decentralized, and unmonitored approach to integrating information using existing IT projects, which in themselves have not developed or implemented minimal project management controls.

These weaknesses have significant ramifications because EPA reported approximately \$398 million in fiscal 2000 investments and planned investments of \$428 million for FY 2001. In March 2001 the Agency also reported that it expects to spend at least \$449 million in FY 2002. In addition, a recent OMB

"report card" concluded that 61 percent of EPA's FY 2002 IT Investment Portfolio was at high risk of failure. OMB reached this opinion primarily because it could not tell whether or how the Agency was using an enterprise architecture approach to assess and manage IT development, modernization, and enhancement projects.

To facilitate improvements in environmental protection, EPA must provide environmental information to its diverse stakeholders. To achieve that goal, EPA needs to update its IT strategic plan to address the Agency's programmatic and operational goals, complete developing a common Agency IT architecture for IT projects, and establish a CPIC process that supports program needs such as environmental data standards, geographic information, and electronic reporting.

EMPLOYEE COMPETENCIES

The Agency recognizes that one of its biggest challenges over the next several years is the creation and implementation of a workforce planning strategy that focuses its attention and resources on employee development. EPA needs to better integrate human capital into its strategic plans by more effectively defining and developing needed competencies in leadership, management, science, and technical skills. Appropriate training for staff, including supervisors and managers, is critical to the credibility of EPA's actions in accomplishing its environmental mission. The need for training is highlighted in a number of our audit reports and in reviews by GAO and the National Research Council of the National Academies.

Specifically, an audit of the Superfund program disclosed that the Headquarters program office and several EPA regions did not clearly identify the quality assurance training needs of program staff. Even in regions where training needs were identified, the training was not always provided. We also found that EPA employees in the hazardous waste program needed more rigorous training to calculate proposed penalties against violating facilities. As a third example, our review of the National Environmental Performance Partnership System (NEPPS) concluded that a lack of training for EPA employees has hindered the effective implementation of this program. Audits have repeatedly noted a need to better train managers in their oversight and

administration of EPA's assistance agreements programs. Additionally, we found that EPA has not required, nor regularly provided, specific training for its managers or executives to lead a results- and accountability-oriented culture.

In an audit on Region 6's Supplemental Environmental Projects (SEPs), we found that the region did not effectively implement the SEP policy to ensure that EPA, the environment, and public health were the primary beneficiaries of such projects. Better training in SEP procedures and methods, improved controls and guidance in evaluating project quality and monitoring SEP implementation, and more effective coordination with the Justice Department would have improved the region's implementation of SEP policy.

EPA recognized the need for broader management, leadership, and technical skills in its Workforce Assessment Project report, which discussed the implications of future changes in EPA's mission and role in environmental protection. The study identified competency gaps that the Agency must close to ensure that its workforce can meet existing and new challenges.

EPA's FY 2001 Strategic Plan also broadly recognized the importance of human capital as a key priority for the Agency. In addition, GAO reported that EPA needs to implement a workforce planning strategy to determine the skills and competencies needed to meet current and future needs. This need will intensify as about half of EPA's scientific and senior managers become eligible for retirement within the next 5 years. In response, EPA has begun implementing a Human Capital Strategic Plan. EPA's workforce planning efforts call for identifying the skills needed in every program unit based on an assessment of future program needs, identifying skill gaps, and tying skill needs to future budget requests. EPA plans to award a contract in early calendar year 2002 to develop a model workforce planning process and a system that will meet the Agency's competency-based workforce planning needs.

EPA's Human Capital Strategy specifically addresses the need for management and leadership competencies by implementing a series of management development programs. The Agency needs to further its commitment to deploy the strategy by dedicating resources, developing performance measures, implementing necessary systems for recruiting and developing needed competencies, and then holding managers accountable.

QUALITY OF LABORATORY DATA

The quality of laboratory data supplied to EPA for regulatory compliance and remediation purposes continues to be a pressing issue. Environmental data of questionable authenticity can lead to concerns about the soundness of EPA's decisions pertaining to the protection of the environment and public health. Furthermore, data integrity issues lead to additional costs and unnecessary delays when the Agency has to identify and assess the impact of the fraudulent data and undertake additional sampling.

In a June 1999 memorandum to the Acting Deputy Administrator, we suggested actions EPA could take to better identify data of questionable quality. However, ongoing lab fraud investigations indicate that despite Agency efforts to ensure data quality, manipulated data continue to be generated and supplied to the Agency.

Our reviews and investigations have disclosed a particularly disturbing trend in the number of environmental laboratories that are providing misleading and fraudulent data to the states for monitoring the Nation's public water supplies. Several current lab fraud investigations involve severe manipulation of lab data used to evaluate the compliance of public water supplies with federal drinking water standards. Some of these manipulations have masked potential violations of the drinking water regulations. Many of the Agency's other programs (e.g., Superfund, Resource Conservation and Recovery Act, National Pollutant Discharge and Elimination System, air toxics; underground storage tanks, and pesticides) have also been affected by laboratory fraud.

The number of ongoing lab fraud investigations has doubled over the past year. One of the investigations resulted in the indictment of 13 persons, with 5 convictions. The laboratory made a criminal plea of conspiracy to commit mail fraud and received a \$9 million fine. Environmental decisions based on these manipulated data at numerous military and civilian waste sites had to be reviewed and, in many cases, verified through additional testing. One EPA region estimated that the

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consequential damages resulting from this activity were approximately \$1 million.

The Agency has conducted extensive technical systems assessment audits at all EPA regional and research laboratories. In addition, EPA has provided fraud detection and awareness training and ethics training, studied electronic methods for screening data, and issued guidance discussing the level of quality assurance in relation to the intended use of data. These efforts should help to improve the quality assurance systems and documentation throughout the Agency's environmental laboratories. However, until the impact of these and any other recommended actions is realized, EPA must continue to assess and improve its controls over laboratory data quality.

EPA'S INFORMATION SECURITY PROGRAM

EPA relies on its information systems to collect, process, store, and disseminate vast amounts of information used to assist in making sound regulatory and program decisions. Therefore, it is essential that the Agency prevent intrusion and abuse of its information systems and protect the integrity of its data.

We have issued a number of reports that cited critical inadequacies in the Agency's information security program and recommended specific corrective actions. In addition, a July 2000 GAO review of EPA's information security program found serious and pervasive problems in the program that "essentially rendered it ineffective." GAO's report identified the existing practices as weak and largely a paper exercise that had done little to mitigate risks to the Agency's data and systems.

EPA has made substantial improvements to its Information Security Program. The Agency has improved its risk assessment and planning processes, implemented major new technical and procedural controls, begun the issuance of new policies, and, finally, begun a regular process of testing and evaluation. Under the leadership of the Office of Environmental Information (OEI), EPA has been working to achieve the Agency's goals of making information on its computer systems available, while protecting the confidentiality and integrity of its information. Although no security program is perfect, the Agency's Information Security Program is substantially stronger than it was.

The dynamic nature of security, however, requires continued emphasis and vigilance. More needs to be done to protect the Agency's information and systems. In our view, EPA needs to establish a strong centralized security program with oversight processes that would adequately address risks and ensure that valuable information resources and environmental data are secure. Given the Agency's decentralized organizational structure, it is essential that OEI establish a strong leadership and monitoring role to ensure the success of its computer security program.

EPA'S USE OF ASSISTANCE AGREEMENTS TO ACCOMPLISH ITS MISSION

Assistance agreements constitute approximately one-half of EPA's budget and are the primary vehicles through which the Agency delivers environmental and human health protection. Therefore, it is important that EPA and the public receive what the Agency has paid for.

Over the past several years, our audit work has repeatedly identified problems in the delivery of environmental protection activities through assistance agreements. For example, we reported in September 2000 that EPA Region 8 was not consistently awarding and monitoring tribal grants. Agency officials placed a higher priority on external relationships, generally with the tribes, and did not pay sufficient attention to grant management and internal organizational relationships. Some grants included unallowable activities or had inadequate or untimely work plans and progress reports.

Recent audits of EPA's assistance recipients disclosed that some recipients did not have adequate financial and internal controls to ensure that federal funds were managed properly. As a result, EPA had limited assurance that grant funds were used in accordance with work plans and met negotiated environmental targets. For example, an EPA Region 5 grantee could not adequately account for almost \$169,000 of the \$300,000 in EPA funds. Also, a Region 2 grantee had submitted multiple financial status reports with different ending balances, had excess federal funds on hand, and could not support that it had met the minimum cost-sharing requirement. Misuse of grant funds also resulted in an agreement with the City of Cleveland to settle a civil lawsuit charging that the city's Air Pollution Control Program improperly spent a total of \$429,158 in grant funds awarded by EPA.

Further, in May 2001 the OIG reported that the Agency did not have a policy for competitively awarding discretionary assistance funds, totaling \$1.3 billion, and recommended such a policy be developed. Without competition, EPA cannot ensure that it is funding the best products based on merit and cost-effectiveness, thereby achieving program objectives and accomplishing its environmental mission. The Agency agreed and is drafting a policy that will address competition in the award of discretionary assistance funds.

The Agency has completed a number of actions to improve its oversight controls over assistance agreements, including requiring additional training for all project officers and issuing policy on project officer and grant management oversight roles and responsibilities. We are reviewing those actions and will continue to work with the Agency to identify solutions to assistance problems.

BACKLOG OF NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM (NPDES) PERMITS

The Clean Water Act specifies that NPDES permits may not be issued for more than 5 years. Permittees wishing to continue discharging beyond that term must submit an application for permit renewal at least 6 months prior to the expiration date of their permit. If the permitting authority receives that application but does not reissue the permit prior to expiration, the permit may be "administratively continued." These administratively continued permits are considered "backlogged."

Backlogged permits are an important issue because the conditions on which the existing permit is based might have changed since the original permit was issued. These changed conditions might require that the permittee discharge less toxic waste or less volume of waste. The "backlogged" permit would not contain these new terms and conditions, thereby delaying potential environmental improvements to waters. EPA is the permitting authority for 6 states and has delegated permitting authority to the remaining 44 states. The Agency recognizes that the backlog of NPDES permits is a nationwide problem and has developed a corrective action plan that includes a variety of

strategies to reduce the backlog. These strategies include creating a streamlined process for developing permits by taking advantage of new technology, providing assistance to the states through both environmental assessments and permit assistance, and communicating the importance of this issue to the states and EPA regional offices and receiving firm commitments to reduce the backlog from them.

EPA's goal is to reduce the backlog of NPDES permits for major facilities to10 percent by the end of calendar year 2001 and to10 percent for major and minor permits by the end of calendar year 2004. As of August 2001, the percentage of backlogged permits was 23.5 percent for majors and 27 percent for minors. According to EPA officials, the 2001 goal will not be met because of the dramatic increase in the complexity of writing NPDES permits over the past several years due to the number of parameters included in permits.

EPA realizes that its current permitting system needs to be reevaluated and that the Agency needs to find new ways of implementing the NPDES program or the problem will become worse. According to EPA officials, the number of point sources needing permits has increased five times in the past 10 years. EPA is considering a number of innovative methods to address the expanding scope of the NPDES program. For example, the use of general permits that are written for a class of similar facilities and the use of information technology to expedite the entire permit development process, including electronic submission of permit applications, electronic files to develop permits, and electronic reports, are all viable options.

We will continue to monitor the progress EPA makes in addressing this important issue. Eliminating the backlog and making the permit issuance process more efficient will free up resources for other important activities.

EPA'S WORKING RELATIONSHIP WITH THE STATES

During the past two decades, environmental and human health protection programs have grown in size, scope, and complexity. Many environmental problems transcend media boundaries, and solutions may require innovative, cross-media approaches. EPA and states recognized that existing arrangements for

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implementing environmental programs and addressing environmental problems were not as efficient and effective as they could be.

EPA depends heavily on states to fund and implement national programs, as well as to provide most of the environmental data. EPA and states have not yet agreed on how states will have flexibility while being accountable for environmental results. Relations between EPA and states have been strained because of disagreements over (1) respective roles and the extent of federal oversight; (2) priorities and budgets; and (3) results-oriented performance measures, milestones, and data. EPA can improve its working relationship with states by establishing a structure to set direction, establish goals, provide training, oversee accomplishments, and ensure accountability of EPA program and regional offices for encouraging and facilitating joint planning and priority setting with the states.

In an audit of state enforcement of the Clean Water Act, we reported that the state programs could be much more effective in deterring noncompliance with discharge permits and, ultimately, improving the quality of the Nation's water. EPA and the states have been successful in reducing point source pollution. Despite tremendous progress, however, nearly 40 percent of the Nation's assessed waters are not meeting the standards states have set for them. The state strategies we evaluated needed to be modified to better address environmental risks, including contaminated runoff. Contaminated runoff, including agricultural and urban runoff, was widely accepted as causing the majority of the Nation's remaining water quality problems. We recommended that EPA work with the states to develop risk-based enforcement priorities and upgrade the Permit Compliance System to ensure that the system meets federal and state needs.

The National Environmental Performance Partnership System (NEPPS) established a new frame-work to reinvent the EPA-state working relationship to better focus on working as partners to accomplish complex environmental issues with scarce resources. As one of the primary tools for implementing NEPPS, performance partnership grants (PPGs) allow states and tribes to combine multiple EPA grants into one. EPA began implementing PPGs in 1996.

In a series of audits on regional and state NEPPS program implementation (including PPGs), we found that NEPPS principles were not well integrated into EPA because of the lack of (1) leadership providing a clear direction and expectations, (2) training and guidance, (3) trust in NEPPS due to fear of change and losing control, and (4) goals and related performance measures to monitor and measure progress on achieving better environmental results.

Since we began issuing our reports in September 1999, EPA has taken several steps to ensure that NEPPS fulfills its potential. To address the lack of leadership and clear direction for NEPPS, the Agency formally designated the Assistant Administrator for the Office of Congressional and Intergovernmental Relations as the National Program Manager for NEPPS. The Agency also began drafting a handbook to promote understanding of NEPPS and included PPG project officer training as part of its national grants conference.

The current Administration has also taken steps to set Agency direction for NEPPS and to better integrate NEPPS into EPA. The Administrator has emphasized a personal interest in seeing NEPPS succeed and expand. She described NEPPS as an excellent model of how EPA should work with states and asked Regional Administrators to provide her with regular reports on how NEPPS is working. She also asked the Assistant Administrators to work with the EPA regions and states in identifying areas where flexibility is available and to encourage the testing of new measures of program performance.

Although EPA has taken some notable actions, we believe much remains to be done to improve its working relationship with states. For example, the Agency and state managers continue to struggle with how to provide states flexibility to address their highest environmental priorities while continuing to implement and report on core program requirements. In addition, EPA has not defined its performance measures and related milestones to monitor EPA and state progress toward accomplishing NEPPS and PPG goals. We will continue to monitor the Agency's progress in addressing this important issue.

PROTECTING INFRASTRUCTURE FROM NONTRADITIONAL ATTACKS

Under Presidential Decision Directive (PDD) 63, initiated in May 1998, federal agencies are required to review by May 2003 their respective critical physical and cyber-based infrastructures to ensure the performance of their mission in the event of nontraditional attacks within the United States. The Directive also places additional responsibility with federal agencies considered to have a major sector vulnerable to infrastructure attacks. EPA has been designated the Lead Agency and Sector Liaison for the Nation's water systems. The Agency, in cooperation with its private sector counterparts, is to address potential areas of vulnerability and protection of the Nation's critical water system infrastructure.

In June 2001 we reported that funding problems had caused delays in attempts by EPA and the private sector to develop a national framework for protecting this critical infrastructure. Consequently, some key PDD 63 requirements, such as conducting vulnerability assessments and risk mitigation, as well as implementing a Vulnerability Awareness and Education Program for the water sector, had yet to be achieved. As a result, the OIG could not state whether EPA and its private sector counterparts would be successful in their attempt to develop a national framework for protecting the critical infrastructure of the Nation's water supply.

In our report, we recommended that the Agency complete PDD 63 activities in process, fill gaps in critical infrastructure planning, and address resource needs. In response, the Agency generally agreed with our conclusions and recommendations. The Agency cited various actions to address security issues, including developing a vulnerability assessment methodology for the industry, training utilities to undertake vulnerability assessments, revising emergency operations plans to incorporate specific counterterrorism measures, supporting the development of a secure Information System and Analysis Center, and awarding grants to study the use of advanced technology to produce devices for detecting dangerous microorganisms in water supplies.

In light of the events of September 11, 2001, the OIG and the Senate Committee on Environment and Public Works asked the Agency in October to report its current and more immediate action plans

to protect the Nation's water systems from terrorist attack. In a November 19, 2001, memo to the OIG, the Agency reported that the Administrator has established a Water Protection Task Force with a staff working full-time on implementing PDD 63 and other related activities. (This move increased the staff working on water security issues from 1 full-time engineer to about 10 full-time staff and many part-time EPA specialists.) Significant progress has been made on many of the tasks outlined in a 1998 draft plan to develop the National Infrastructure Assurance Plan: Water Supply Sector. Most of the tasks have been examined closely, revised as appropriate, and placed on an accelerated schedule so that the majority of activities will be completed by

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the end of 2002, with the remainder completed in 2003. In addition to accelerating the work, the Agency has expanded the work to include support for all water systems, both drinking water and wastewater. (The original plan was to focus on the largest drinking water systems serving more than 100,000 people.)

This is a major Agency initiative with national impact that merits continued attention to ensure that planned activities are implemented; milestones are met; and issues are reported, addressed, and corrected as soon as possible. We will monitor the Agency's progress on this important water issue.